

Redevelopment Agency of the City of Sunnyvale
Basic Financial Statements
And Independent Auditors' Reports
For The Fiscal Year Ended
June 30, 2002



City of Sunnyvale
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Prepared by the Department of Finance
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June 30, 2002

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INDEPENDENT AUDITORS' REPORT

To the Members of the Redevelopment Agency
of the City of Sunnyvale
Sunnyvale, California

We have audited the accompanying basic financial statements of the Redevelopment Agency of the City of Sunnyvale (Agency), a component unit of the City of Sunnyvale, as of and for the year ended June 30, 2002, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Governmental Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2002, and the results of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Agency adopted statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report date October 16, 2002 on our consideration of Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Required Supplementary Information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This Required Supplementary Information is the responsibility of the management of the Agency. This Required Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

Caporicci & Larson

Oakland, California
October 16, 2002

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Redevelopment Agency
of the City of Sunnyvale
Sunnyvale, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Sunnyvale (Agency) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 16, 2002. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Agency's Board, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Oakland, California
October 16, 2002

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Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2002

This analysis of the Redevelopment Agency (Agency) of the City of Sunnyvale's (City) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the accompanying basic component unit financial statements and the accompanying notes to those component unit financial statements.

A. FINANCIAL HIGHLIGHTS

- At June 30, 2002, the Agency's had net deficits (excess of liabilities over assets) of \$47 million as a result of long-term debt to the City and in the Low-and-Moderate Income-Housing Fund.
- During the fiscal year ended June 30, 2002, the Agency's total net assets decreased by \$2.8 million due to the Agency's inability to raise sufficient tax increment revenues to meet its debt obligations as a result of Proposition 13 and other State laws limiting the Agency revenue streams. The most significant portion of this decrease was in interest expenses.
- The Agency is dependent on tax increment revenues and investment income.
- The Agency's total bonded debt decreased by \$625,000 during the current fiscal year as a result of current debt service repayments. The Agency's loans payable to the City increased by \$4.5 million as a result of a new loan approved by the Agency board in the amount \$1.5 million for Downtown improvements, interest accrued on old loans and cash flow needs for current operations.

B. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements.

The basic financial statements include only the Redevelopment Agency of the City of Sunnyvale, which is a component unit of the City and is reported in the City's financial statements using the blended method.

This report also contains other supplementary information in addition to the basic financial statements for further information and analysis.

Government-Wide Financial Statements

The Government-Wide Financial Statements present the financial picture of the Agency and provide readers with a broad view of the Agency's finances. These statements present governmental activities and include all assets of the Agency (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by GASB Statement No. 34.

Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2002

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Government-Wide Financial Statements, Continued

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the Agency as a whole and about its activities. These statements include *all* assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the Agency's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows.

The Agency only has governmental activities, which are shown in the Statement of Net Assets and the Statement of Activities and Changes in Net Assets:

Governmental Activities—All of the Agency's basic services are reported in this category, including Planning and Management, Community Development and Transportation. Property tax and interest income finance these activities.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Agency's major funds—not the Agency as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

The Fund Financial Statements include statements for the governmental activities. These statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Governmental Funds—The Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, Governmental Funds Financial Statements focus on current financial resources, which emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the Agency's near-term financial requirements.

Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2002

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Fund Financial Statements, Continued

In order to better understand the Agency's long-term and short-term requirements, it is useful to compare the Agency's Governmental Fund Statements with the governmental activities in the Government-Wide Financial Statements. A reconciliation is provided for both the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances to facilitate this comparison.

All of the Agency's funds were determined to be major funds. These funds include the General Fund, the Low and Moderate Income Housing Special Revenue Fund, the Debt Service Fund and the Capital Projects Fund, which are reported in detail in the Governmental Fund Financial Statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Required Supplementary Information

In addition to the basic financial statements, this report also presents certain Required Supplementary Information which includes the Agency's budgetary comparison schedules for the General Fund and the Low and Moderate Income Housing Special Revenue Fund.

Other Supplementary Information

The supplementary schedules are presented immediately following the Required Supplementary Information.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the Agency's financial position. During this fiscal year, the Agency had net deficits of \$47 million.

The following is the condensed Statement of Net Assets for the fiscal year ended June 30, 2002.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Management's Discussion and Analysis, Continued *Fiscal Year Ended June 30, 2002*

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Net Assets, Continued

Redevelopment Agency of the City of Sunnyvale
Condensed Statements of Net Assets
June 30, 2002
(Amounts in Thousands)

Assets:	
Current Assets	\$ 8,170
Capital Assets, Net	15,905
Total Assets	24,075
Liabilities:	
Current Liabilities	5,709
Other Liabilities	42,511
Long-term Liabilities	22,890
Total Liabilities	71,110
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(7,635)
Restricted	10,780
Unrestricted	(50,180)
Total Net Assets	\$ (47,035)

At June 30, 2002, the Agency reported negative balances in two categories of net assets. Invested in capital assets net of related debt shows a negative balance of \$7.6 million, as the debt related to the assets has not yet been liquidated.

Unrestricted net assets also shows a negative balance due to the loan given to the Agency by the City for development of the downtown parking structure and for operations of the Agency. The Agency's ability to repay its debt obligations was undermined by the passage of Proposition 13, which stripped the Agency of approximately two-thirds of its property tax increment. In addition, other state laws, such as caps on the time period of revenue collection and actual revenue limits have further damaged the Agency's ability to repay its loan. Currently the time limit for tax increment collection is 2025 and the total revenue limit is \$118 million.

A portion of the Agency's net assets, \$10.8 million are subject to restrictions imposed by external parties and their use is determined by those restrictions and agreements.

Comparative Statements of Net Assets were not available since this is the first year of implementation of GASB Statement No. 34.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2002

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal year ended June 30, 2002.

Redevelopment Agency of the City of Sunnyvale
Condensed Statement of Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2002
(Amounts in Thousands)

Revenues:	
General Revenues	\$ 2,776
Expenses	5,557
Increase (Decrease) in Net Assets	(2,781)
Net Assets - Beginning	(44,254)
Net Assets - Ending	\$ (47,035)

The Agency's most significant expense was interest on long-term debt of \$4.5 million. Total operating expenses were \$1.1 million. Revenues consisted of property taxes and investment earnings, which were insufficient to meet current year's expenses. As a result, net assets decreased by \$2.8 million, resulting in further loans from the City.

Functional expenses for the year ended June 30, 2002 were as follows (amounts in thousands):

Planning and Management	\$ 155
Community Development	718
Transportation	229
Total	\$ 1,102

Comparative Statements of Activities and Changes in Net Assets were not available since this is the first year of implementation of GASB Statement No. 34.

Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2002

D. FUND FINANCIAL STATEMENT ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Agency's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements.

As of the end of fiscal year 2002, the Agency's governmental funds reported a combined ending fund deficit of \$47 million. This deficit was largely due to the loan due to the City's General Fund as discussed in the Government-Wide analysis of the Statement of Net Assets.

E. BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency Board revised the Agency budget several times. Possible budget amendments fall into three categories:

- Amendments and appropriations approved shortly after the beginning of the year to reflect capital and special project carryovers for unspent appropriations of projects that have not been completed.
- Changes made to the budget as a result of the mid-year review.
- New appropriations approved by City Council.

For the fiscal year 2002, budget modifications were made to the original budget for the following capital and special projects in the carryover process:

- \$618,164 for the Town Center Parking Structure Maintenance.
- \$175,173 for the Redevelopment plan Project Area Economic Analysis.

Certain capital projects budgeted for the current year were not completed and the unspent portions of the appropriations will be in the carryover process for fiscal year 2003.

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

Capital assets of the Agency are those assets that are used in the performance of the Agency's functions. At June 30, 2002, net capital assets of the governmental activities totaled \$15.9 million including depreciation on capital assets, which is recognized in the Government-Wide Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Management's Discussion and Analysis, Continued *Fiscal Year Ended June 30, 2002*

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

Capital Assets, Continued

The following is a summary of the Agency's capital assets as of June 30, 2002 (amounts in thousands).

Description	Cost	Accumulated Depreciation	Carrying Value
Land	\$ 13,154	\$ -	\$ 13,154
Improvements Other than Buildings	6,972	4,221	2,751
Total	\$ 20,126	\$ 4,221	\$ 15,905

The Agency had no major capital asset additions that were completed during the year. However, during the implementation of GASB Statement No. 34 some prior period adjustments were made to capital assets as a result of the count and valuation of these assets (see note 12 in the Notes to Basic Financial Statements).

Long-Term Obligations

As of June 30, 2002, the Agency had outstanding debt issues as listed below (amounts in thousands).

Tax Allocation Bonds	\$ 7,625
Certificates of Participation	15,915
Total Net Assets	\$ 23,540

The Agency had no new debt during the current fiscal year.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In preparing the budget for the next fiscal year the following factors were taken into consideration:

- The unemployment rate for the City was 6.7% as compared to 3.8% for the prior year. This rate is approximately the same as the State rate of 6.6%. Our high unemployment rate is due to the recession that has affected the country and especially the Silicon Valley.
- Inflation rate for the San Francisco Bay metropolitan area was 2.3%, which is higher than the national inflation rate of 1.9%.
- The Agency is facing a revenue cap in the amount of \$118 million, which is estimated to be reached in the fiscal year ending June 30, 2019.

Management's Discussion and Analysis, Continued
Fiscal Year Ended June 30, 2002

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, Continued

In general, the Agency and the City as a whole are experiencing a significant downturn in the economy. This downturn has affected the Agency's ability to generate revenues at prior year levels.

The Agency's approach to budgeting requires that the Agency Board approve a financial plan that has been balanced to the twentieth year. This long-term nature of the City's financial planning system allows decision makers to better understand the true effect of policy decisions. One of the most powerful aspects of the multi-year financial planning is its capability to recognize trends over time and begin at an early point to consider the necessary steps to alter the long-term forecasted position of the Agency.

Given these assumptions, the nature of the Agency Long-Term Financial Plan has changed. It is assumed that any increase to property tax revenues in the downtown can be used for two purposes beyond payment of debt service: repayment to the City on the outstanding loan or downtown projects. For the financial plan the repayment to the City was held constant at the level previously planned, and the debt service payments were maintained for the required time period. Any remaining funds were shown in the *Downtown Increased Tax Benefit* expenditure line item on a level annual basis. This line item reflects the potential additional tax increment funds that the City has available for downtown projects or repayment to the City.

It is important to note that no further development activity has yet been anticipated in the financial plan. To the extent that the Town Center Mall is redeveloped and development occurs on the north of Washington block, more tax increment will be produced for the Agency, which will cause the City to reach its revenue limit earlier. To address the issue of the property tax increment cap, the City is currently in the process of evaluating the feasibility of amending the Redevelopment Plan to increase the revenue limit.

H. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Sunnyvale Finance Department, 650 W. Olive Avenue, Sunnyvale, California 94086.

Government-Wide Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Statement of Net Assets June 30, 2002

	Governmental Activities
Assets:	
Current Assets	
Cash and Investments Held by City	\$ 6,165,183
Cash and Investments Held by Fiscal Agent	1,990,029
Taxes Receivable	5,954
Interest Receivable	736
Inventories and Prepayments	7,663
Total Current Assets	8,169,565
Noncurrent Assets	
Capital Assets:	
Land and Non-depreciable Assets	13,154,251
Depreciable Assets	2,751,231
Total Capital Assets	15,905,482
Total Noncurrent Assets	15,905,482
Total Assets	24,075,047
Liabilities:	
Current Liabilities	
Accounts Payable and Accrued Liabilities	81,274
Due to Other City Funds	4,665,241
Interest Payable	311,888
Long Term Debt - Due Within One Year	650,000
Total Current Liabilities	5,708,403
Noncurrent Liabilities	
Advance from Other City Funds	42,511,398
Long-term Debt - Due in More than One Year	22,890,000
Total Noncurrent Liabilities	65,401,398
Total Liabilities	71,109,801
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(7,634,518)
Restricted for:	
Capital Projects	4,665,241
Debt Service	1,989,765
Specific Projects and Programs	4,124,704
Total Restricted Assets	10,779,710
Unrestricted Net Assets (Deficit)	(50,179,946)
Total Net Assets	\$ (47,034,754)

See Accompanying Notes to Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2002

Functions/Programs	Governmental Activities Expenses
Primary Government:	
Governmental Activities:	
Planning and Management	\$ 154,538
Community Development	718,344
Transportation	229,277
Interest on Long-Term Debt	4,454,913
Total Governmental Activities	5,557,072
Total Primary Government	\$ 5,557,072
General Revenues:	
Taxes:	
Property Taxes	2,703,181
Investment Earnings - Unrestricted	72,420
Total General Revenues and Transfers	2,775,601
Change in Net Assets	(2,781,471)
Net Assets (Deficits) - Beginning of Year, as restated	(44,253,283)
Net Assets (Deficits) - End of Year	\$ (47,034,754)

See Accompanying Notes to Basic Financial Statements



Governmental Fund Financial Statements

General Fund accounts for all financial resources necessary to carry out basic governmental activities of the Agency that are not accounted for in another fund.

Low and Moderate Income Housing Special Revenue Fund accounts for the funds deposited to improve and increase the supply of low and moderate income housing within the City.

Debt Service Fund accumulates funds for payment of the 1992 Redevelopment Agency Central Core Tax Allocation Bonds, the 1998 Parking Lease Certificates of Participation, and the Advances from the City General Fund. Debt service is financed with incremental property tax revenues and the City General Fund's loan to the Agency.

Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of Agency capital projects.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE**Balance Sheet and Reconciliation to the Government-Wide Statement of Net Assets
Governmental Funds
June 30, 2002**

		Major Funds	
	General Fund	Low and Moderate Income Housing Special Revenue	Debt Service
Assets:			
Cash and Investments Held by Agency	\$ 4,665,241	\$ -	\$ -
Cash and Investments Held by Fiscal Agent	-	-	1,990,029
Taxes Receivable	5,954	-	-
Interest Receivable	-	-	736
Due From Other Funds	-	4,124,704	-
Inventories and Prepayments	-	-	7,663
Total Assets	\$ 4,671,195	\$ 4,124,704	\$ 1,998,428
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 80,042	\$ -	\$ 1,000
Due to Other Funds	4,124,704	-	-
Due to Other City Funds	4,665,241	-	-
Advances from Other City Funds	-	-	42,511,398
Total Liabilities	8,869,987	-	42,512,398
Fund Balances:			
Reserved for Low and Moderate Income Housing	-	4,124,704	-
Reserved for Prepayments	-	-	7,663
Reserved for Debt Service	-	-	1,989,765
Total Reserved	-	4,124,704	1,997,428
Unreserved and Designated for Capital projects	-	-	-
Unreserved and Undesignated	(4,198,792)	-	(42,511,398)
Total Fund Balances	(4,198,792)	4,124,704	(40,513,970)
Total Liabilities and Fund Balances	\$ 4,671,195	\$ 4,124,704	\$ 1,998,428

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Total Fund Balances

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.

Net Assets of Governmental Activities

See Accompanying Notes to Basic Financial Statements

Major Funds	
Capital Projects	Total Governmental Funds
\$ 1,499,942	\$ 6,165,183
-	1,990,029
-	5,954
-	736
-	4,124,704
-	7,663
<u>\$ 1,499,942</u>	<u>\$ 12,294,269</u>
\$ 232	\$ 81,274
-	4,124,704
-	4,665,241
-	42,511,398
<u>232</u>	<u>51,382,617</u>
-	4,124,704
-	7,663
-	1,989,765
-	6,122,132
1,499,710	1,499,710
-	(46,710,190)
1,499,710	(39,088,348)
<u>\$ 1,499,942</u>	<u>\$ 12,294,269</u>
	\$ (39,088,348)
	15,905,482
	(311,888)
	(23,540,000)
	<u>\$ (47,034,754)</u>

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Statement of Revenues, Expenditures and Changes in Fund Balances and Reconciliation to Statement of Activities and Changes in Net Assets Governmental Funds Year Ended June 30, 2002

	General Fund	Low and Moderate Income Housing Special Revenue	Debt Service
Revenues:			
Property Taxes	\$ 2,703,181	\$ -	\$ -
Use of Money and Property	-	-	72,420
Total Revenues	2,703,181	-	72,420
Expenditures:			
Current:			
Planning and Management	107,430	-	-
Community Development	714,919	-	-
Capital Outlay	47,108	-	-
Debt Service:			
Principal Retirement	-	-	625,000
Interest and Fiscal Charges	-	-	4,461,925
Total Expenditures	869,457	-	5,086,925
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,833,724	-	(5,014,505)
Other Financing Sources (Uses):			
Transfers In	-	540,636	1,924,237
Transfers Out	(2,464,873)	-	(1,500,000)
Total Other Financing Sources (Uses)	(2,464,873)	540,636	424,237
Net Change in Fund Balances	(631,149)	540,636	(4,590,268)
Fund Balances - Beginning of Year	(3,567,643)	3,584,068	(35,923,702)
Fund Balances - End of Year	\$ (4,198,792)	\$ 4,124,704	\$ (40,513,970)

Amounts reported for governmental activities in the Statement of Activities are different because:

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.

Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This amount represents long-term debt repayments.

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in Governmental Funds. The following amount represents the change in accrued interest from prior year.

Change in Net Assets of Governmental Activities

See Accompanying Notes to Basic Financial Statements

Capital Projects	Total Governmental Funds
\$ -	\$ 2,703,181
-	72,420
-	2,775,601
-	107,430
-	714,919
290	47,398
-	625,000
-	4,461,925
290	5,956,672
(290)	(3,181,071)
1,500,000	3,964,873
-	(3,964,873)
1,500,000	-
1,499,710	(3,181,071)
-	
\$ 1,499,710	

(232,412)

.625,000

7,012

\$ (2,781,471)



Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2002

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

The component unit financial statements of the Redevelopment Agency (Agency) of the City of Sunnyvale (City), California, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. *Reporting Entity*

Redevelopment Agency of the City of Sunnyvale

The Agency was established under the provisions of the community redevelopment laws of the State of California by a resolution of the City Council adopted on November 19, 1957. In this resolution, the City Council declared itself to be the governing members of the Agency.

Because City Council members serve as the governing members of the Agency, management activities of the Agency are conducted by City staff, and the Agency is dependent upon the City for fiscal operations including preparation of the annual financial report, the Agency is considered a component unit of the City and blended into the City's Comprehensive Annual Financial Report.

B. *Basis of Accounting and Measurement Focus*

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Governmental-Wide Financial Statements

The Agency Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Agency. The Agency has no Business Type Activities.

The basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as revenues for the Agency are general revenues such as property tax increment and interest revenues. Certain

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the Statement of Activities, interfund transfers have been eliminated.

The Agency applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) to the governmental activities.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The Agency has presented all governmental funds as major funds because the Agency believes the financial position and activities of those funds are significant to the Agency as a whole.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax increment and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Deposits and Investments

The Agency pools unrestricted cash resources of its various funds with the City to facilitate cash management. No interest earnings from the City's cash and investment pool are apportioned to the Agency since the Agency, because of debt obligations, relies on the City to supplement its cash needs. Interest income from cash and investments with fiscal agents is credited directly to the related fund of the Agency.

E. Property Tax Revenue

California State Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1 percent of its assessed value unless an additional amount has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be increased by no more than 2 percent per year unless there is new construction on the property or the property is sold or transferred. The California Legislature has determined the method of distribution of receipts from the 1 percent tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties, bills and collects property taxes to the Agency. Secured and unsecured taxes are levied on July 1. Secured tax is due in two installments on November 1 and February 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payments. Unsecured tax is due as of the January 1 lien date and becomes delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured tax. If unsecured tax remains unpaid on October 31, an additional 1.5% attaches to it on the first day of each month until paid. The term "unsecured" refers to taxes on property not secured by liens on real property.

Property tax revenues are recorded when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

The Agency has elected not to participate in the "Teeter Plan" offered by the County, thereby retaining the right to any interest and interest and penalties collected on the related delinquent taxes.

The Agency's property taxes consist of tax increment revenue. This revenue is calculated by property taxes generated by the Agency through development activities. At the time a development project is undertaken the base property tax levy on the property is frozen and the full amount of incremental taxes due to increased value of the property becomes the Agency's revenue. The Agency's tax increment revenue is based on development activity in the project area, which is the downtown area of the City.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Interfund Balances

Outstanding balances between the Agency's funds are reported as due to and due from other funds.

G. Advances from Other City Funds

Outstanding balances owed to the City by the Agency are reported as advances from other City funds.

H. Capital Assets

The Agency's capital assets, which include land and improvements, are reported in the governmental activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost was not available. The capitalization threshold for reporting capital assets is \$5,000. Depreciation is recorded on a straight-line method (with half-year convention applied to the first year of acquisition) over the useful lives of the assets. The Agency's depreciable capital assets are parking improvements that have an estimated useful life of thirty years.

I. Long-term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the governmental activities.

Fund Financial Statements

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

J. Net Assets and Fund Equity

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount includes all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund Financial Statements

Fund Equity – Reservations and designations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenditures and expenses. Actual results could differ from these estimates and assumptions.

L. Implementation of New GASB Pronouncements

In 2002, the Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.
- Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No. 34 is a new financial reporting requirement for local governments in the United States. The Agency has implemented this pronouncement and has restructured much of the information that it has presented in the past. The main goal is to make the reports more comprehensive and easier to understand and use.

GASB Statement No. 37 addresses selected issues and amends GASB Statements No. 21, *Accounting for Escheat Property*, and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These Statements make selective changes including accounting for Escheat Property, Management's Discussion and Analysis, Capitalization of Construction – Period Interest, Modified Approach for Reporting Infrastructure, Program Revenues and Major Fund Criteria.

GASB Statement No. 38 establishes and modifies disclosure requirements related to Summary of Significant Accounting Policies, actions taken to address violations of significant finance – related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

2. CASH AND INVESTMENTS

The Agency pools its cash with the City. At June 30, 2002, the Agency had the following cash balances:

Cash Held by the Agency	
Deposits	\$ 1,499,942
Certificate of Deposit	<u>4,665,241</u>
Total Cash held by the Agency	6,165,183
Cash Held by Fiscal Agent	<u>1,990,029</u>
Total Cash	<u>\$ 8,155,212</u>

Refer to the City's Comprehensive Annual Financial Report for detailed disclosure on cash and investments.

3. INTERFUND RECEIVABLES/PAYABLES

Fund Financial Statements

Due to/from Other Funds

At June 30, 2002, the Agency General Fund owed the Low and Moderate Income Housing Special Revenue Fund \$4,124,704. This amount represents the 20% of redevelopment property tax increment revenues that are set aside for low and moderate income housing by State mandate. The Agency cannot provide funding due to pre-existing bonded debt and obligations. Under current projections, this amount will not be repaid until after the tax increment revenue cap has been reached. The advance carries no interest and has no specific repayment terms.

4. DUE TO OTHER CITY FUNDS

During fiscal year 2000-2001, the Agency sold some assembled parcels of land located within the Parking District for development. A portion of the proceeds from the land sale, \$6,425,000 plus related interest earnings, is being used for construction of a downtown underground parking facility and has been recorded as due to the City's Parking District Fund from the Agency's General Fund. As of June 30, 2002, the Agency had disbursed \$2,037,883 for the construction of downtown parking structure. The remaining balance, \$4,665,241, represents funds committed to the completion of the parking structure.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

5. ADVANCES FROM OTHER CITY FUNDS

The Redevelopment Agency (as lessor) entered into a lease agreement with the City (as lessee) on May 1, 1977, for a two-level parking structure. The lease, as amended, requires the City to pay to the Agency base rental payments ranging from \$1,131,103 to \$1,281,250 of each year until October 1, 2022. During fiscal year ended June 30, 2002, the City made \$1,218,753 in base rental payments to the Agency. The Agency uses these funds to make the annual debt service payments on the 1998 Parking Facility, Series A, Certificates of Participation.

According to the terms of the First Amended Repayment Contract signed in 1977, the Agency made the commitment to repay the City for costs advanced on its behalf and base rentals plus 8% interest on the unpaid balance. The funds needed to repay the City are generated from tax increment revenues. The Agency's first obligation is to pay the Central Core bonded debt service. The remaining tax increment revenues determine each year's repayment to the General Fund.

During the fiscal year ended June 30, 2002, the General Fund advanced an additional \$1,500,000 to the Agency to fund downtown public improvements. This advance bears interest at 6% and is payable in annual installments through 2007.

Total interest accrued on unpaid City advances for the fiscal year amounted to \$3,182,548, which includes \$3,092,548 accrued at 8% on unpaid City advances based on the first amended repayment contract and \$90,000 accrued at 6% on the \$1.5 million advance for the downtown improvement.

The following is a summary of transactions during the fiscal year ended June 30, 2002:

Advances from Other City Funds, July 1, 2001	\$	37,946,929
<i>Additional Advances from City for:</i>		
Downtown Improvements		1,500,000
Base Rental Payments		1,218,753
Operations and Projects		698,526
<i>Repayments to City from:</i>		
Tax Increment Revenue after Central Core Debt Service		(2,035,358)
Interest Accrued on Unpaid City Advances		3,182,548
Advances from Other City Funds, June 30, 2002	\$	<u>42,511,398</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

6. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2002, the Agency's capital assets consisted of the following:

	Balance July 1, 2001	Additions	Deletions	Prior Period Adjustments (Note 12)	Balance June 30, 2002
Land	\$ 5,907,792	\$ -	\$ -	\$ 7,246,459	\$ 13,154,251
Improvements Other Than Buildings	8,056,796			(1,084,436)	6,972,360
Total Capital Assets	13,964,588	-	-	6,162,023	20,126,611
Less Accumulated Depreciation	(4,513,046)	(232,412)		524,329	(4,221,129)
Total Governmental Activities	\$ 9,451,542	\$ (232,412)	\$ -	\$ 6,686,352	\$ 15,905,482

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2002 are as follows:

Community Development	\$ 3,135
Transportation	229,277
Total depreciation expenses	\$ 232,412

B. Funds Financial Statements

The Fund Financial Statements do not present General Government Capital Assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE**Notes to Basic Financial Statements, Continued**
Fiscal Year Ended June 30, 2002**7. LONG TERM DEBT**

Following is a summary of long term debt transactions during the fiscal year ended June 30, 2002:

Long Term Debt	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Amounts Due Within One Year
Governmental Activities:					
Redevelopment Central Core					
Tax Allocation Bonds	\$ 7,800,000	\$ -	\$ (175,000)	\$ 7,625,000	\$ 185,000
Redevelopment 1998 Parking Facility					
Certificates of Participation	16,365,000	-	(450,000)	15,915,000	465,000
Total Governmental Activities	\$ 24,165,000	\$ -	\$ (625,000)	\$ 23,540,000	\$ 650,000

Tax Allocation Bonds**\$8,900,000 1992 Central Core Redevelopment Project Tax Allocation Bonds**

Due in annual installments of \$115,000-\$630,000 through October 1, 2022, interest at 5.25-6.50%, repayments made from incremental property taxes recorded in the Redevelopment Agency General Fund.

The debt service requirement for the bonds at June 30, 2002 were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 185,000	\$ 481,933	\$ 666,933
2004	195,000	470,343	665,343
2005	205,000	458,040	663,040
2006	220,000	444,810	664,810
2007	235,000	430,533	665,533
2008-2012	1,415,000	1,903,653	3,318,653
2013-2017	1,925,000	1,375,365	3,300,365
2018-2022	2,615,000	650,583	3,265,583
2023	630,000	20,475	650,475
Total	\$ 7,625,000	\$ 6,235,735	\$ 13,860,735

Notes to Basic Financial Statements, Continued
*Fiscal Year Ended June 30, 2002***7. LONG TERM DEBT, Continued****Certificates of Participation****\$17,525,000 1998 Parking Facility, Series A, Certificates of Participation**

Due in annual installments of \$315,000-\$1,250,000 through October 1, 2022, interest at 3.65%-5.00%, repayments made from base rental payments from the City General Fund.

The debt service requirement for the Certificates of Participation at June 30, 2002 were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 465,000	\$ 750,678	\$ 1,215,678
2004	485,000	731,678	1,216,678
2005	500,000	711,728	1,211,728
2006	520,000	690,558	1,210,558
2007	545,000	667,920	1,212,920
2008-2012	3,100,000	2,944,570	6,044,570
2013-2017	3,915,000	2,103,461	6,018,461
2018-2022	5,135,000	986,125	6,121,125
2023	1,250,000	31,250	1,281,250
Total	<u>\$ 15,915,000</u>	<u>\$ 9,617,968</u>	<u>\$ 25,532,968</u>

Prior Year Defeasance of Debt

In prior years, the Agency defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts in amounts sufficient to meet all future debt service requirements of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2002, the following outstanding bonds are considered defeased:

1977 Central Core Redevelopment Tax Allocation Bonds (refunded in 1992)	\$	4,785,000
1977 Parking Lease Revenue Bonds, Series A and B (refunded in 1992)		7,425,000
1992 Parking Lease Revenue Refunding Bonds (refunded in 1998)		14,575,000

The Agency has complied with all significant bond covenants relating to reserve and sinking fund requirements, proof of insurance and budgeted revenues and maintenance costs.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

8. SELF-INSURANCE AND CONTINGENT LIABILITIES

The Agency is covered under the City's self-insurance plan and various insurance policies. The City is self-insured for claims related to general liability up to \$500,000 per incident; for claims related to workers' compensation liability up to \$275,000 per incident; and for unemployment insurance through direct reimbursement to the State for actual unemployment benefits paid. Employers' Reinsurance, Inc. provides workers' compensation coverage to the City for claims up to \$1,000,000 for employer's liability damages and \$10,000,000 for statutory benefits in excess of \$275,000. The City participates in the liability program of California Joint Powers Risk Management Authority (CJPRMA), a risk sharing pool, which provides public liability coverage to its members. CJPRMA provides public liability coverage for claims in excess of \$500,000 up to \$14,500,000.

9. INTERFUND OPERATING TRANSFERS

An operating transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds and another fund is responsible for the actual disbursement. Examples include transfer of funds from the general fund or a special revenue fund to a debt service fund to support principal and interest payments and transfer of funds as part of an operating subsidy. Listed below are interfund operating transfers for the year ended June 30, 2002:

		Transfers In			
		Governmental Funds			
		Major Funds			
		Special Revenue	Debt Service	Capital Projects	Totals
Transfers Out	Governmental Funds				
	Major Funds:				
	General Fund	\$ 540,636	\$ 1,924,237	\$ -	\$ 2,464,873
	Debt Service	-	-	1,500,000	1,500,000
	Totals	<u>\$ 540,636</u>	<u>\$ 1,924,237</u>	<u>\$ 1,500,000</u>	<u>\$ 3,964,873</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

10. CLASSIFICATION OF NET ASSETS**Governmental-Wide Financial Statements**

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and Specific Projects and Programs as established by the Agency Board.

Unrestricted Net Assets – This category represents the net assets of the Agency, which are not restricted for any project or other purpose.

Fund Financial Statements

In the Fund Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Agency Board and Management and can be increased, reduced or eliminated by similar actions.

In Governmental Funds, fund reservations are presented as a component of fund balance as follows:

	Low and Moderate Income Housing Special Revenue	Debt Service
Low and Moderate Income Housing	\$ 4,124,704	\$ -
Prepayments	-	7,663
Debt Service	-	1,989,765
Total	<u>\$ 4,124,704</u>	<u>\$ 1,997,428</u>

Fund reservations are described as follows:

Reserved for Low and Moderate Income Housing represents the portion of the Redevelopment Agency's property tax increment revenues which are required by State law to be spent on housing for low and moderate income households.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2002

10. CLASSIFICATION OF NET ASSETS, Continued

Reserved for Prepayments reflects the carrying value of these assets. Since these assets are goods that have already been purchased, they do not represent available spendable resources of the City.

Reserved for Debt Service represents the portion of retained earnings that is legally restricted as per the bond covenants.

In Governmental Funds, fund designations are presented as a component of unreserved fund balance.

At June 30, 2002, the Capital Projects Fund had designated \$1,499,710 for capital projects to reflect management's plans to reappropriate current financial resources for incomplete capital projects.

11. DEFICIT NET ASSETS AND FUND EQUITY

Government-Wide Financial Statements

The governmental activities in the Government-Wide Financial Statements had deficit unrestricted net assets of \$(50,179,946.) These deficit unrestricted net assets are due to liabilities incurred by these activities from advances made by the City. These advances were used to either acquire or improve capital assets located within the redevelopment project area. The deficit net assets will be eliminated as repayments are made to the City from tax increment revenues.

Fund Financial Statements

The following funds had deficit fund balances as of June 30, 2002:

General Fund	\$ (4,198,792)
Debt Service Fund	(40,513,970)

The recording of long-term advances from the City to the Agency has caused the deficit fund equity in the Agency's Debt Service Fund. As of June 30, 2002, total advances amounted to \$42,551,398. The Fund would have reported a positive fund balance of \$1,997,428 for the bonded debt had there been no interfund advances recorded in the fund. The deficit is expected to be funded by operating transfers from the Agency's General Fund.

The deficit fund equity in the Agency's General Fund has been caused by the State mandated 20% of tax increment revenues set aside for low and moderate income housing. The deficit is expected to be funded by collection of property taxes. Under current projects repayment will not start until after the tax increment cap has been reached.

Notes to Basic Financial Statements, Continued
*Fiscal Year Ended June 30, 2002***12. PRIOR PERIOD ADJUSTMENTS****Government-Wide Financial Statements**

The Agency has implemented new GASB pronouncements and made the following adjustments:

	Net Assets as Previously Reported	Implementation of New GASB Pronouncements	Net Assets as Restated
Fund Balances at July 1, 2001	\$ (35,907,277)	\$ -	\$ (35,907,277)
Capital Assets	13,964,588	6,162,023	20,126,611
Accumulated Depreciation	-	(3,988,717)	(3,988,717)
Long-term Debt	(24,165,000)	-	(24,165,000)
Accrued Interest Expenses	-	(318,900)	(318,900)
Total	<u>\$ (46,107,689)</u>	<u>\$ 1,854,406</u>	<u>\$ (44,253,283)</u>

Required Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE**Required Supplementary Information
Fiscal Year Ended June 30, 2002****BUDGETARY POLICY AND CONTROL****Budgetary Comparison Schedule - General Fund
Fiscal Year Ended June 30, 2002**

	Budgeted Amount			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual	
Fund Balance, July 1, 2001	\$ (3,567,643)	\$ (3,567,643)	\$ (3,567,643)	\$ -
Resources (Inflows):				
Property Taxes	2,327,697	2,327,697	2,703,181	375,484
Total Resource	2,327,697	2,327,697	2,703,181	375,484
Charges to Appropriations (Outflows)				
Planning and Management	25,750	200,923	107,430	93,493
Community Development	730,538	730,538	714,919	15,619
Capital Outlay	31,000	649,164	47,108	602,056
Transfers Out	1,502,761	1,502,761	2,464,873	(962,112)
Total Charges to Appropriations	2,264,299	3,083,386	3,334,330	(250,944)
Excess of Revenues Over (Under)				
Charges to Appropriations	63,398	(755,689)	(631,149)	124,540
Fund Balances, June 30, 2002	\$ (3,504,245)	\$ (4,323,332)	\$ (4,198,792)	\$ 124,540

**Budgetary Comparison Schedule - Low and Moderate Income Housing Special Revenue Fund
Fiscal Year Ended June 30, 2002**

	Budgeted Amount			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual	
Fund Balance, July 1, 2001	\$ 3,584,068	\$ 3,584,068	\$ 3,584,068	\$ -
Resources (Inflows):				
Transfers In	465,539	465,539	540,636	75,097
Total Resource	465,539	465,539	540,636	75,097
Fund Balances, June 30, 2002	\$ 4,049,607	\$ 4,049,607	\$ 4,124,704	\$ 75,097

Required Supplementary Information, Continued
Fiscal Year Ended June 30, 2002

BUDGETARY POLICY AND CONTROL, Continued

Budgetary Information

The Agency's budget is adopted at the same time and as part of the City's budget. The City's approach to budget preparation is a central part of the City's Planning and Management System (PAMS). Key elements of the PAMS framework are:

- Long-range strategic planning (the General Plan Elements and Sub-Elements),
- Long-term financial planning (the Ten-Year Resource Allocation Plan, which includes projections over a 20-year time frame),
- Short-term allocation of resources (the two-year action budget),
- The Council Study Issues process,
- Performance "contracts" for Management, and
- Annual performance reporting and evaluation.

The City in establishing the budgetary data reflected in its financial statements follows the procedures listed below:

- (1) During December of each year, a public hearing (not legally required) is held by the City Council to obtain budgetary comments from the public early in the budget process.
- (2) During May of each year, the City Manager submits to the City Council, a recommended budget for the fiscal year commencing July 1. The City Charter requires that the City Council receive the City Manager's budget no later than May 25.
- (3) The City Manager's budget includes budgets for equipment, operating costs, debt service costs, and capital and special projects for the ensuing year.
- (4) During May of each year the City Council holds a workshop on the budget. The workshop is open to the public.
- (5) During June of each year the City Council holds a public hearing, legally required by the City Charter, where the public may submit written or oral comments regarding the entire budget or portions thereof.
- (6) Prior to June 30 of each year, the budget as modified by the City Council, is legally enacted by adoption of a budget resolution. The legal level of control is placed by the City Council at the departmental level. Appropriations lapse at year-end to the extent they have not been expended.
- (7) The City Manager is authorized to transfer budgeted amounts within departments. Any revisions that affect a fund's reserve account must be approved by the City Council.
- (8) Budgets are legally adopted for all governmental funds.

Formal budgets are employed as a management control device for all funds in which a budget has been adopted. They serve as the primary means of spending control for the general fund, special revenue funds, debt service funds and capital project funds.

Required Supplementary Information
Fiscal Year Ended June 30, 2002

Budgetary Information, Continued

- (9) Budgeted amounts reported are those as originally adopted June 19, 2001, plus all amendments approved during the year by the City Council. Individual amendments were not material in relation to the original amounts budgeted. The City's policy is to reappropriate uncompleted capital projects into the next fiscal year.

Budgetary Highlights

The Agency General Fund appropriations budget (outflows) was amended during the fiscal year to reflect carryover of unspent capital and special projects funds and unanticipated expenditures. Total budget modifications resulting from carryover appropriations totaled \$618,164 and \$175,173 for capital projects and special projects respectively.

There were no differences in the original and final budgets of the Low and Moderate Income Housing Special Revenue Fund.

Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Fiscal Year Ended June 30, 2002

	Budgeted Amount		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Fund Balance, July 1, 2001	\$ (35,923,702)	\$ (35,923,702)	\$ (35,923,702)	\$ -
Resources (Inflows):				
Use of Money and Property	147,746	147,746	72,420	(75,326)
Transfers In	1,218,753	1,218,753	1,924,237	705,484
Total Resources	1,366,499	1,366,499	1,996,657	630,158
Charges to Appropriations (Outflows):				
Principal Retirement	625,000	625,000	625,000	-
Interest and Fiscal Charges	1,271,828	1,271,828	1,279,377	(7,549)
Interfund Interest	-	-	3,182,548	(3,182,548)
Transfers Out	-	-	1,500,000	(1,500,000)
Total Charges to Appropriations	1,896,828	1,896,828	6,586,925	(4,690,097)
Excess of Revenues Over (Under) Charges to Appropriations	(530,329)	(530,329)	(4,590,268)	(4,059,939)
Fund Balances, June 30, 2002	\$ (36,454,031)	\$ (36,454,031)	\$ (40,513,970)	\$ (4,059,939)

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE**Capital Projects Fund****Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Fiscal Year Ended June 30, 2002**

	Budgeted Amount		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
Fund Balance, July 1, 2001	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
Transfers In	1,500,000	1,500,000	1,500,000	-
Total Resources	1,500,000	1,500,000	1,500,000	-
Charges to Appropriations (Outflows):				
Capital Outlay	1,500,000	1,500,000	290	1,499,710
Total Charges to Appropriations	1,500,000	1,500,000	290	1,499,710
Excess of Revenues Over (Under) Charges to Appropriations	-	-	1,499,710	1,499,710
Fund Balances, June 30, 2002	\$ -	\$ -	\$ 1,499,710	\$ 1,499,710